
Measuring the value of internal audit in the banking industry

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Abstract

The importance of the audit function in banking institutions has considerably increased during the financial crisis, the focus of the management moving to risk management and control processes. The role of internal audit is to help management in protecting the bank's patrimony, reputation and ensuring the sustainable development of the organization, by providing an extensive analysis and a comprehensive insight on activities. Furthermore, just as each department must achieve the set objectives and add value to the organization, the same is true for the internal audit department.

This study aims to examine the methods used to measure the value of internal audit in the banking industry and to identify the most significant methods that consider the effect of the internal audit results on the organization.

We propose answers to questions such as: "Do audit functions in banking institutions confirm their value?" and "How can internal audit demonstrate its contribution to adding value to the organization?" In this regard, we approached the measuring of the internal audit value from a theoretical point of view. Further, we investigated which are metrics (KPIs) and practices used to measure the value of internal audit and analysed the extent to which these metrics are likely to highlight the value added to the organization by the internal audit activity.

The results of the study suggest that most organizations use methods that contain mainly quantitative and less qualitative elements. There are differences between banks and other types of organizations in terms of the methods and practices used, but also on the importance showed to measurement of internal audit value. In addition, the findings confirm that there is room for improving the methods and practices used, so that the audit function gains value and credibility.

Keywords: Internal audit, value added, performance measurement, banks.

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